

A nighttime photograph of a city skyline reflected in a body of water. In the foreground, a marina is filled with numerous sailboats, their masts and rigging illuminated by warm, yellow lights. The city skyline in the background features several high-rise buildings, some with glowing windows and others with distinctive architectural features. A prominent, tall, slender tower with a blue and white facade and a red light at the top stands out against the dark sky. The overall scene is a vibrant display of urban and maritime life at night.

RLB | Rider Levett Bucknall

FORECAST 62 |

NEW ZEALAND TRENDS  
IN PROPERTY AND  
CONSTRUCTION

FOURTH QUARTER 2011

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0508 ASK RLB

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Western Sydney

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Cover: Auckland, New Zealand

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# INDEPENDENT CONSULTANTS LOCAL KNOWLEDGE AND EXPERTISE GLOBAL NETWORK

## RIDER LEVETT BUCKNALL

Rider Levett Bucknall are independent property market and construction cost consultants with offices located globally.

## FORECAST 62

Prepared by the New Zealand Institute of Economic Research (Inc.) exclusively for Rider Levett Bucknall, Forecast is produced quarterly and provides detailed local construction market intelligence and knowledge.

## CONSTRUCTION MARKET INTELLIGENCE

Forecast is supplemented by Rider Levett Bucknall's bi-annual construction market intelligence publications: the Oceania Report, International Report and Gulf Reports.

## KEY POINTS IN THIS ISSUE

- **Canterbury earthquake** Reconstruction of Canterbury is slow and may not accelerate until late 2012. The construction sector may suffer capacity constraints at the peak of reconstruction, lifting construction sector inflation. The bulk of the reconstruction will be in residential and infrastructure segments, while commercial work is likely to be spread over a long period (perhaps a decade).
- **Building activity** The non-residential building sector has stabilised after a sharp decline. Building work put in place rose 3.9% over the June 2011 year.
- **Building consents** Building consents, which lead work done by around 12 months, have stabilised at a low level and are down 1.0% over the past year. Activity will stabilise as a result. The main drivers are high vacancy rates, a slow economic recovery and delays in Canterbury reconstruction.
- **Building investment** Non-residential building investment will contract by 31% over the March 2012 year before recovering from 2013. Investment activity may rebound sooner if reconstruction in Canterbury can be fast tracked.
- **Building confidence** Building confidence improved despite weak activity levels. Canterbury reconstruction work is the main source of optimism.
- **Building costs** Non-residential building costs rose 0.4% over the June 2011 year, after softness through the recession. Construction costs will gradually pick up as the economy recovers and the Canterbury rebuilding programme builds up, peaking around 2014. There remains considerably uncertainty around the size and timing of the Canterbury rebuild, and thus the outlook for costs.



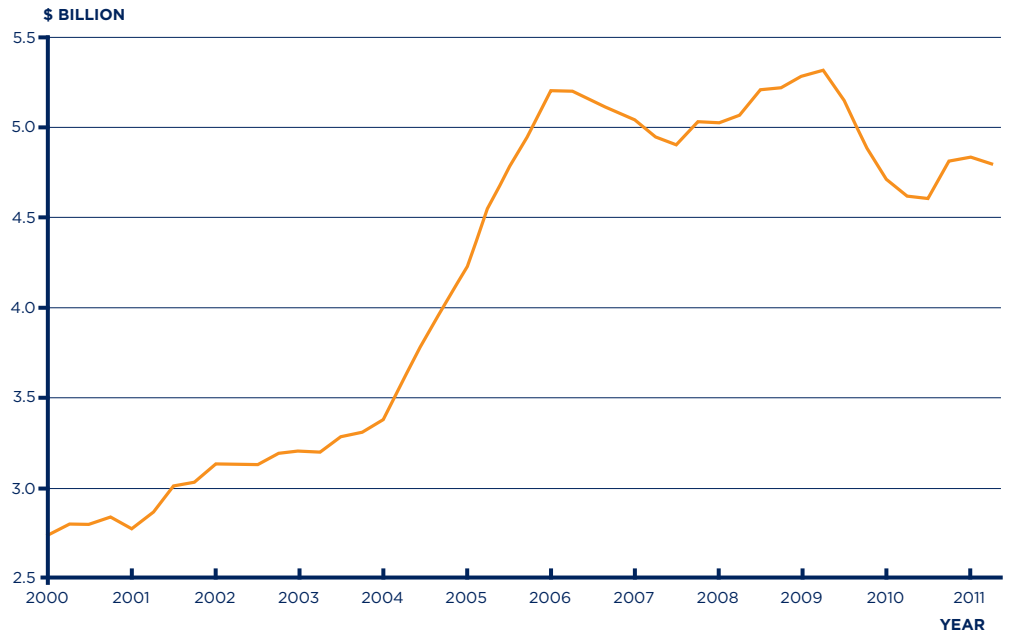
Intelligence

### Rider Levett Bucknall's Smartphone app.

Download direct from your app store. Available on iPhone, Android, Windows Phone7 and Blackberry Operating Systems.

FIGURE 1

ANNUAL  
NON-RESIDENTIAL  
BUILDING WORK  
PUT IN PLACE

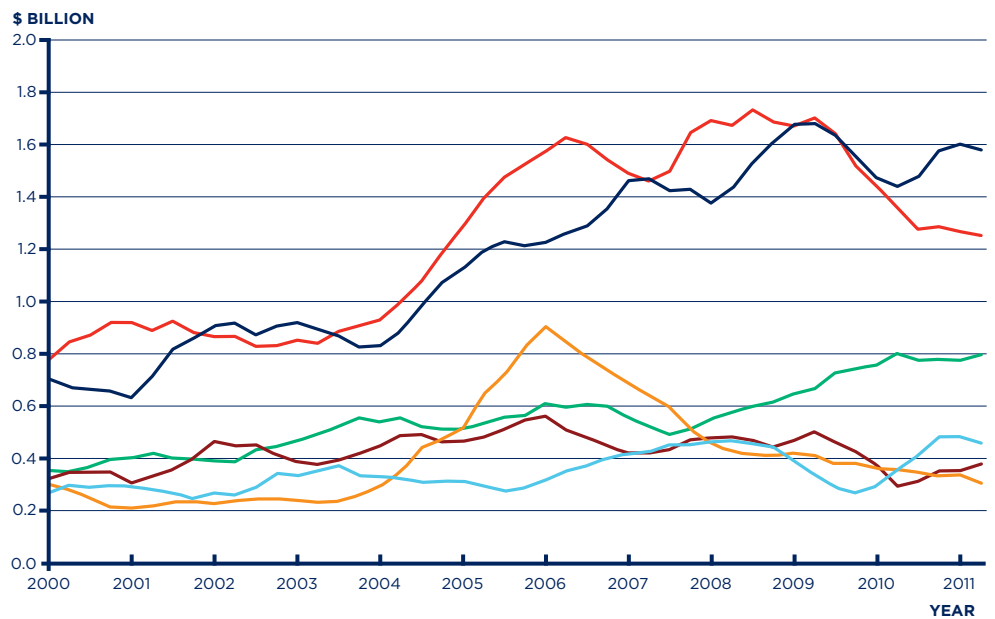


Source: Statistics New Zealand

FIGURE 2

ANNUAL  
NON-RESIDENTIAL  
BUILDING WORK PUT  
IN PLACE BY SECTOR

- ▲ COMMERCIAL
- ▲ MISCELLANEOUS
- ▲ EDUCATION
- ▲ FACTORIES AND INDUSTRIAL
- ▲ HOTELS AND BOARDING HOUSES
- ▲ HOSPITALS AND NURSING HOMES



Source: Statistics New Zealand

BUILDING  
ACTIVITY TRENDS

Non-residential building construction has stabilised year to date, following a decline through much of 2010 (Figure 1). The value of non-residential building work fell 3.0% in the June 2011 quarter compared to the June 2010 quarter. The decline in activity was driven by work on hotels and boarding houses, and hospitals and nursing homes. Construction work worth \$4.8 billion took place in the year to June 2011, increasing 3.9% from the previous year.

Residential building work plunged in June; the value of work fell 23.5% in the June 2011 quarter from a year earlier, and fell 5.1% over the year ended June 2011.

Non-residential construction performance over the year to June 2011 varied across sectors. Hotels and boarding houses declined 14%, following Rugby World Cup (RWC) related work in previous periods. Commercial buildings fell 8% given low demand and high vacancy rates. Public sector work remained strong, with health related work up 30% and education related work down just 1%. Industrial construction rose by 29% following a steep decline the previous year, but recent quarters have been soft. Miscellaneous buildings<sup>1</sup> rose by 10%, likely on the back of last minute RWC related work.

<sup>1</sup> A category encompassing social, cultural, religious, recreational and farm buildings.

Westpac fitout, Auckland



BUILDING  
ACTIVITY OUTLOOK

## ECONOMIC GROWTH AND BUILDING INVESTMENT

The New Zealand economy is on the mend, but weak global growth is threatening the recovery, particularly from Australia. New Zealand's economic growth will be slow and there is increasing evidence that the Canterbury rebuild will be more protracted than previously thought. NZIER expects economic growth of only 1.4% in 2011 but rebound to 2.6% in the 2012 calendar year.

Non-residential construction activity has held up in recent months, despite a slump in consents. Government sector work on prisons, education and health sectors are running out of steam. Projects fast tracked for the RWC are also nearly exhausted resulting in little momentum in the sector. This suggests near term weakness in activity and a recovery from late 2012. NZIER expects non-residential building investment to fall by 31% over the March 2012 year, before recovering by 10% over the March 2013 year.

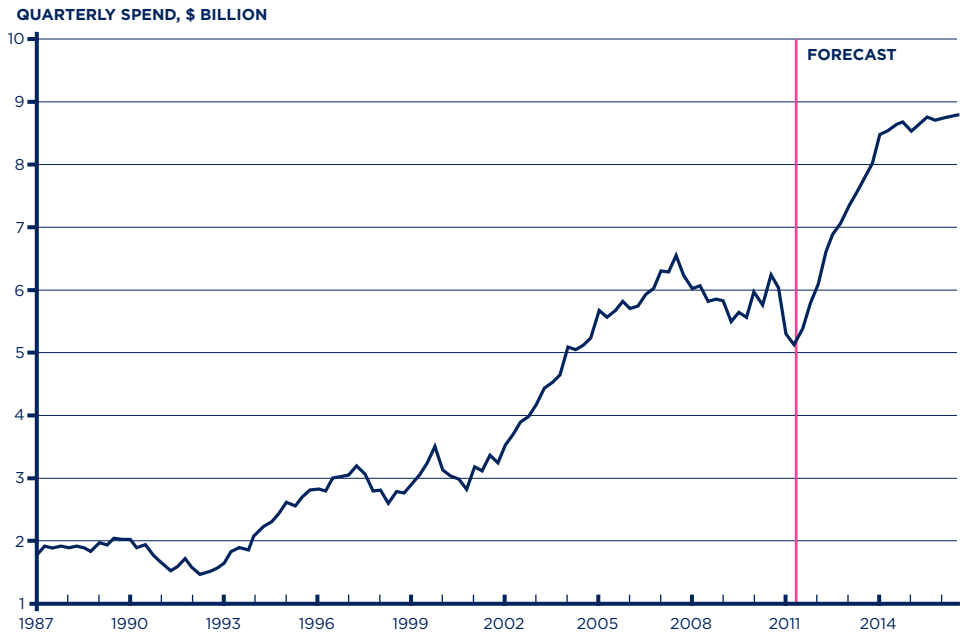
Canterbury reconstruction has been modest to date and is likely to be delayed further. Significant reconstruction activity may not be apparent until mid-late 2012. The rebuilding programme in Canterbury is likely to be large for the residential sector, but spread over a decade for non-residential buildings. Total residential construction activity will be at least \$8b over the next 3-5 years. Significant resources (materials and labour) will be required in Canterbury and may raise construction sector inflation at the peak (around 2014).

Reconstruction of commercial buildings in Canterbury may take some time. There is approximately \$3b of work to be done, but it may be spread over a decade or more. The net impact on the sector is likely to be relatively small. There is little evidence of spill over impacts negatively affecting other regions in a significant manner.



FIGURE 3

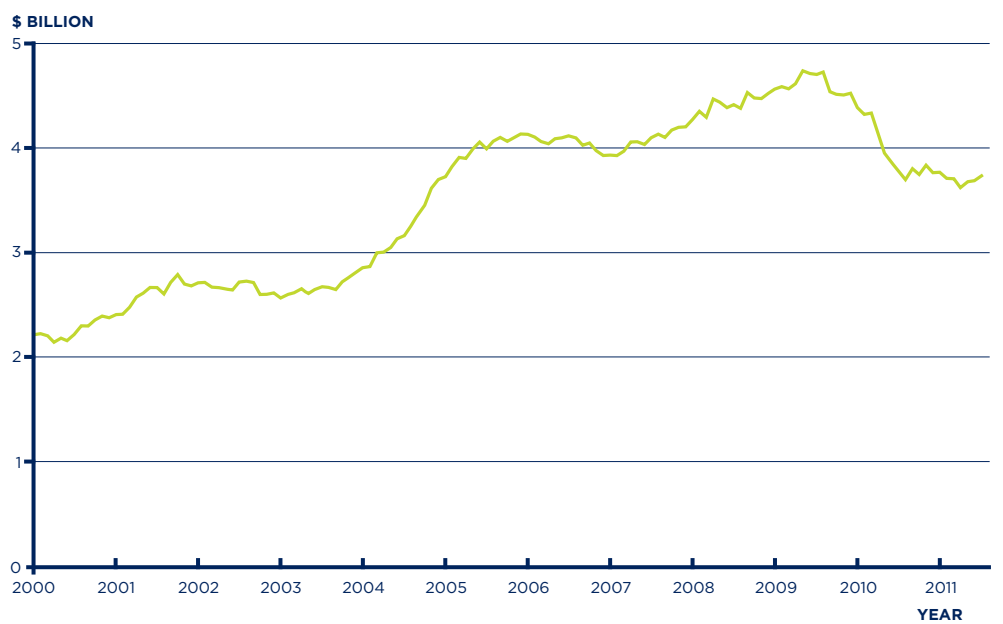
TOTAL CONSTRUCTION  
ACTIVITY



Statistics New Zealand, NZIER forecast

FIGURE 4

ANNUAL  
NON-RESIDENTIAL  
BUILDING CONSENTS



Source: Statistics New Zealand

## INTEREST RATES AND EXCHANGE RATES

Annual consumer price inflation was 5.3% in June 2011, reflecting the GST increase and other policy changes. Food, fuel and government charges have also experienced sharp increases. Prices in competitive parts of the economy remain subdued as firms continue to absorb escalating costs. These are likely to be gradually passed on to consumers as the economy recovers. Producer input prices increased 4.8% while output prices rose 4.5% over the June 2011 year, indicating continued pressure on business margins and profitability.

The RBNZ left the Official Cash Rate (OCR) unchanged at 2.50% in July 2011. We expect the RBNZ to raise interest rates from mid-2012, when economic growth and inflationary pressures eventually emerge. However, this will be contingent on a strengthening economy and easing global risks.

The NZD remains elevated and will likely remain high in the medium term. The major currencies of the US and Europe in particular, will continue to be weak due to economic weakness, deteriorating fiscal positions, increased money supply, foreign currency market intervention and low interest rates. This will see the NZD continue being strong. However, recent deterioration in global financial markets creates the risk of a sharp fall in the NZD, as happened during the GFC.

## BUILDING CONSENTS

Non-residential building consents by value are stabilising at the lowest level since 2005 (Figure 4). Non-residential consents typically translate into actual work done around a year later. Therefore building consents provide a leading indicator of future activity levels. Consents in the month of July 2011 were 16.9% higher than July 2010. In annual terms, consents fell 1.0% to \$3.8 billion over the year to July 2011.

The floor area of non-residential building consents, which is a good indicator of volumes, has stabilised at the lowest level since the early 1990s (Figure 5). The value of consents per square metre continues to ease, suggesting that there is still little inflationary pressure in the sector.

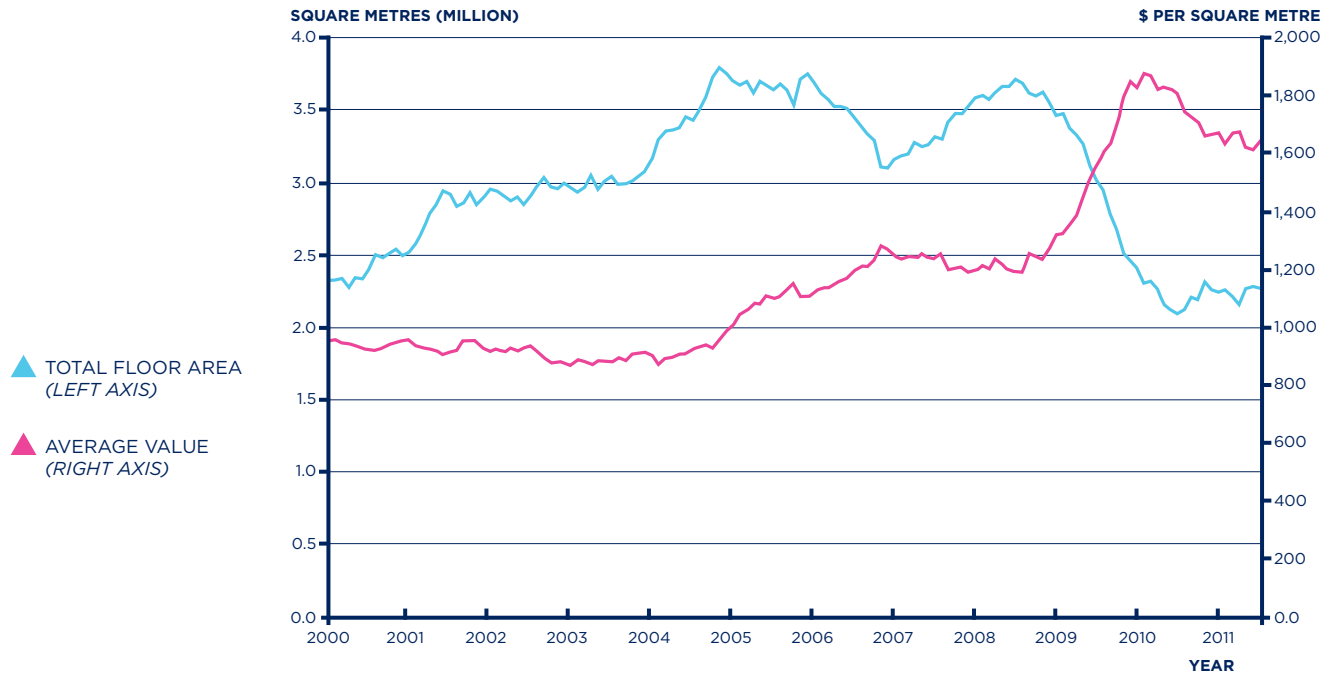
Residential consents fell sharply (16.0%) in the year ending July 2011. Consents in the July 2011 month fell 14.3% compared to July 2010. The level of residential consents remain low, but there are tentative signs of a recovery.

## CONSENTS BY SECTOR

Consents have been stabilising over the year to July 2011 (down just 0.8%), following a steep fall the previous year (-19.6%). Many sectors are rebounding from low levels. Hotels and motels, factories and industrial buildings and miscellaneous building consents have surged, but remain a small fraction of overall consents. Shops, restaurants and taverns, farm buildings and education buildings are also growing strongly. Other sectors are struggling. Hostels and boarding houses, office and administration buildings, social, cultural and religious buildings, storage buildings have plunged from year ago levels. Hospitals and nursing homes remain stable, with modest growth over the previous year.

FIGURE 5

ANNUAL TOTAL FLOOR AREA AND AVERAGE VALUE OF CONSENTS



Source: Statistics New Zealand

TABLE 1

VALUE OF CONSENTS BY SECTOR IN THE YEAR TO JULY 2011

SECTOR	ANNUAL VALUE (\$ MILLION)	SHARE OF TOTAL (%)	ANNUAL CHANGE (%)
EDUCATION BUILDINGS	698	18.6	12.6
SHOPS, RESTAURANTS AND TAVERNS	579	15.4	20.8
OFFICES AND ADMINISTRATION BUILDINGS	509	13.6	-21.7
FACTORIES AND INDUSTRIAL BUILDINGS	470	12.5	34.7
HOSPITALS AND NURSING HOMES	420	11.2	3.9
SOCIAL, CULTURAL AND RELIGIOUS BUILDINGS	381	10.1	-38.5
STORAGE BUILDINGS	219	5.8	-11.4
FARM BUILDINGS	191	5.1	15.1
HOTELS AND MOTELS	125	3.3	37.5
HOSTELS AND BOARDING HOUSES	93	2.5	-12.1
MISCELLANEOUS BUILDINGS	70	1.9	36.0
<b>TOTAL</b>	<b>3,754</b>	<b>100</b>	<b>-0.8</b>

Source: Statistics New Zealand



**Te Pou  
Herenga Waka**

## CONSENTS BY REGION

Consent values are mixed by regions. Taranaki became the growth centre of consents over the previous year after a \$52 million consent for a hospital in May 2011. This resulted in a 107% increase in consents in Taranaki, where the hospital alone accounted for 96% of non-residential consents of the past year.

As shown in Figure 6, West Coast, Southland, Manuwatu-Wanganui and Auckland saw modest growth rates. Downward trends continued in Bay of Plenty, Nelson, Northland, Gisborne and Marlborough.

Auckland finally recorded growth in consents after trending lower in the previous two years. The value of consents issued in Auckland rose only 11% in the year to July 2011, despite total floor area soaring 32%, suggesting more lower value work being done in the region. Wellington consent values rose 3% over the July 2011 year, driven by a 10% increase in consented floor area. The total value of consents issued in Canterbury fell 7%, due to a 5% decline in total floor area.

The outlook remains subdued due to soft domestic conditions and high vacancy rates in commercial properties. Investment intentions have stalled as firms lack profitability to increase future investment. The short term outlook is soft but will eventually be boosted in the medium term as the economy recovers and Canterbury reconstruction commences.

## BUILDING INDUSTRY CONFIDENCE

Building sector confidence is improving. In NZIER's June 2011 *Quarterly Survey of Business Opinion (QSBO)* a net<sup>2</sup> 27% of construction firms believe conditions will improve (from a net 5% in March). The QSBO survey is dominated by the residential building sector.

Construction output rose in the June quarter (+8% of firms), an improvement from the March quarter (-7% of firms). New orders are also improving from a low level (-7% from -13% of firms). Firms expect to increase output in the September quarter (+27% of firms) and expect more new orders (+21% of firms). But they are yet to hire more staff (5% shed staff) as the Canterbury reconstruction remains slow, but expect to hire more over coming months.

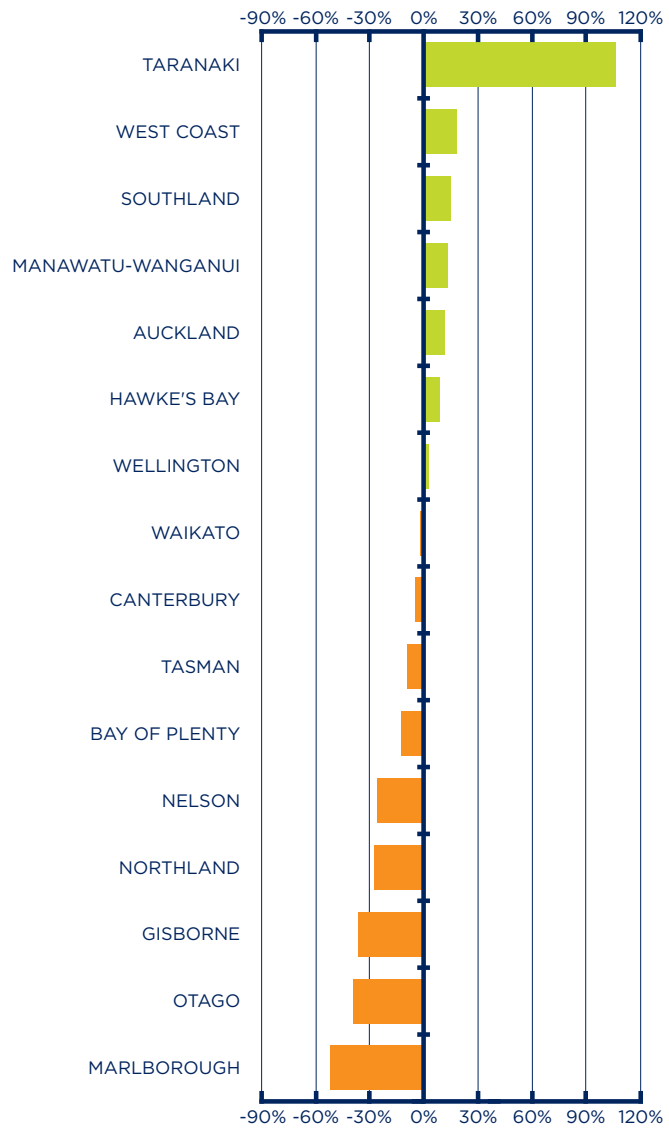
Of particular relevance to the non-residential building sector are building investment intentions. Building investment intentions have stabilised at -4% in the June 2011 quarter. This is consistent with a modest recovery in non-residential construction activity.

<sup>2</sup> The percentage of firms reporting general business conditions to have improved minus the percentage reporting business conditions have declined, after accounting for firms that did not provide a response.

FIGURE 6

ANNUAL GROWTH IN  
VALUE OF CONSENTS BY  
REGION IN THE YEAR TO  
APRIL 2011

AVERAGE ANNUAL PERCENTAGE CHANGE



Source: Statistics New Zealand

## BUILDING COSTS

The Capital Goods Price Index for Non-Residential Buildings (CGPI-NRB) provides an official measure of cost movements in the sector. The CGPI-NRB excludes GST. The rate of increase in the CGPI-NRB can be used as an indicator of cost escalation. Note that this is a national average across all regions and building types. We therefore advise caution in applying the increase in the CGPI-NRB as an indicator of cost escalation for specific building projects. The Rider Levett Bucknall September 2011 Oceania Report provides local regional comment and tender price relativity between the main New Zealand and Australian centres. This publication is available at [www.rlb.com](http://www.rlb.com) or on request from any Rider Levett Bucknall office.

According to the CGPI-NRB, average building costs in the non-residential building sector are starting to rise after stabilising over 2010. The CGPI-NRB increased by 0.6% in the June 2011 quarter and was up 0.4% over the year.

NZIER's latest forecast of the annual percentage change in the CGPI-NRB is shown in Figure 7 and Table 2. Building costs will remain moderate during 2011, but gradually rise in line with recovering activity in the sector, which will be supplemented by Canterbury reconstruction. These construction cost forecasts are based on the assumption of a 10 year rebuild.

The size and timing of the Canterbury rebuild will be critical for the cost escalation outlook, but they are uncertain. The likely size of the rebuild will be in excess of \$15 billion, over the next 5 to 10 years. A rapid rebuild will face capacity and resource constraints pushing up inflation in the sector; a slow and gradual rebuild will be less of a concern.



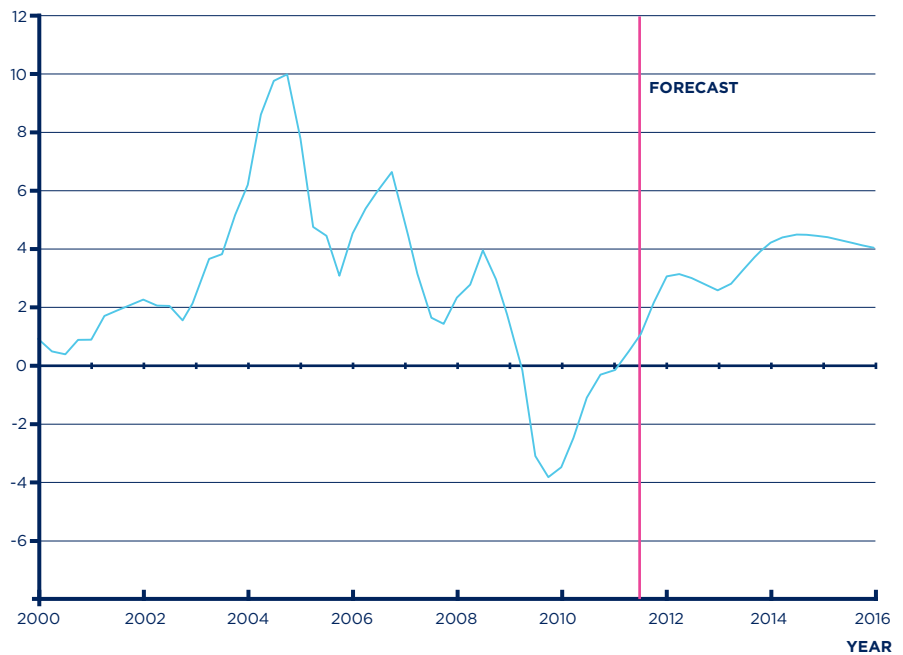
Reception

OFFICE 1

DEPARTMENT OF CORRECTIONS  
CORRECTIONS  
CORRECTIONS

FIGURE 7  
NON-RESIDENTIAL  
BUILDING COST  
ESCALATION

ANNUAL PERCENTAGE CHANGE IN  
THE CGPI-NRB



Source: Statistics New Zealand, NZIER forecast

TABLE 2  
NON-RESIDENTIAL  
BUILDING COST INDEX

**Notes:** The current and forecast CGPI-NRB is a national average, which does not differentiate between regions or building types. We therefore advise caution in applying the increase in the CGPI-NRB as a measure of cost escalation for specific building projects.

YEAR	QUARTER	INDEX	QUARTERLY CHANGE (%)	ANNUAL CHANGE (%)
2008	MARCH	1363	1.0	2.3
	JUNE	1371	0.6	2.8
	SEPT	1393	1.6	4.0
	DEC	1390	-0.2	3.0
2009	MARCH	1384	-0.4	1.5
	JUNE	1369	-1.1	-0.1
	SEPT	1350	-1.4	-3.1
	DEC	1337	-1.0	-3.8
2010	MARCH	1336	-0.1	-3.5
	JUNE	1336	0.0	-2.4
	SEPT	1336	0.0	-1.0
	DEC	1333	-0.2	-0.3
2011	MARCH	1334	0.1	-0.1
	JUNE	1342	0.6	0.4
FORECAST	SEPT	1351	0.6	1.1
	DEC	1362	0.8	2.2
2012	MARCH	1375	0.9	3.0
	JUNE	1384	0.7	3.1
	SEPT	1391	0.5	3.0
	DEC	1400	0.6	2.8
2013	MARCH	1410	0.7	2.6
	JUNE	1423	0.9	2.8
	SEPT	1438	1.0	3.3
	DEC	1453	1.1	3.8
2014	MARCH	1470	1.1	4.2
	JUNE	1486	1.1	4.4
	SEPT	1502	1.1	4.5
	DEC	1518	1.1	4.5
2015	MARCH	1529	1.1	4.4
	JUNE	1545	1.0	4.3
	SEPT	1561	1.0	4.2
	DEC	1576	1.0	4.1
2016	MARCH	1591	1.0	4.0

Source: Statistics New Zealand, NZIER forecast

Vogel



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Tauranga	+64 7 579 5873
Wellington	+64 4 384 9198

## FEATURED PROJECTS

### **WESTPAC FITOUT, AUCKLAND - PAGE 6**

Bright red accents define the interior of Westpac offices. The glazed walls to the atrium maximise the natural light and provide a sense of connection between the offices.

Client: Westpac

### **SOUTHERN CROSS FITOUT, AUCKLAND - PAGE 8**

The atrium linking the two buildings features a vertical garden that provides a visual spectacle and helps increase air quality. The glazed roof of the atrium ensures plenty of natural light enters the centre of the offices.

Client: Southern Cross Health Society

### **CHRISTCHURCH CIVIC BUILDING, CHRISTCHURCH - PAGE 12**

The refurbished civic building sets a precedent on many levels - it's the first building to achieve the New Zealand Green Building Council 6-Star Green Star Built v1 rating, and the first iwi-city council joint venture.

Client: CCBJV (Christchurch city Council and Ngai Tahu Property Ltd)

### **MT EDEN CORRECTIONS FACILITY, AUCKLAND - PAGE 16**

A raft of new buildings and the integration of two existing prisons have resulted in an advanced inner-city prison redevelopment.

Client: Department of Corrections

### **VOGEL INTEGRATED CAMPUS - PAGE 18**

The Vogel Centre is a two stage project integrating new office premises adjacent to the existing and yet to be refurbished Vogel Building. The two new eight level buildings will connect back into the lower seven levels of the existing Vogel Building via a central atrium, thereby creating a large integrated 'campus' or office complex.

Client: AMP Capital Investors

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